

PERAC AUDIT REPORT



Gloucester Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2015



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Finding and Recommendation	2
Statement of Ledger Assets and Liabilities.....	3
Statement of Changes in Fund Balances	4
Statement of Receipts.....	5
Statement of Disbursements.....	6
Investment Income	7
Schedule of Allocation of Investments Owned.....	8
Supplementary Investment Regulations	9
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	10
Note 2 - Significant Accounting Policies	17
Note 3 - Supplementary Membership Regulations.....	19
Note 4 - Administration of the System	22
Note 5 - Actuarial Valuation and Assumptions.....	23
Note 6 - Membership Exhibit.....	24
Note 7 – Leased Premises	25

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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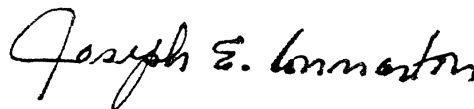
July 7, 2017

The Public Employee Retirement Administration Commission has completed an examination of the Gloucester Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2015. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the finding presented in this report.

In closing, I acknowledge the work of examiners Amy Chow and George Nsia who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Regular Compensation/Member Contributions

A review of payroll from all units revealed the following:

- Some paraprofessionals are receiving stipends for Before School Program which provide before or after-school services to students. The stipends are currently excluded from retirement contributions even though they meet the definition of regular compensation pursuant to 840 CMR 15.03 3(b).
- A school employee is receiving a stipend for Safety at Arrival and Dismissal which ensures students' safety upon arrival and dismissal from school. The stipend is currently excluded from retirement contributions even though it meets the definition of regular compensation.
- A member of the Housing Authority has been over-contributing on his additional 2% deductions since January 2016.

Recommendation: The Board should instruct the payroll department to start deducting retirement on stipends to the school employees.

The Administrator should coordinate with the Housing Authority's payroll department to determine the amount over-contributed by the member and return the excess contributions. Board staff should implement regular internal payroll audits to affirm retirement contributions and 2% deductions are being accurately deducted.

Board Response:

The Board will continue to educate and instruct payroll administrators when Stipends meet the requirement of regular compensation in which contributions would need to be assessed to be in compliance with the definition of regular compensation enacted in Chapter 21 of the Acts of 2009. The Board has instructed the appropriate payroll department to start deducting contributions on stipends noted in the audit. In addition, the member of the Housing Authority who over-contributed 2% had the excess returned to the member via payroll and the Board will enhance payroll monitoring to ensure compliance with G.L. c.32, § 22(1)(b) and PERAC Memo #43/1999.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

		AS OF DECEMBER 31,			
		2015	2014	2013	2012
Net Assets Available For Benefits:					
Cash		\$280,387	\$301,685	\$307,381	\$203,417
PRIT Cash Fund		250,169	325,081	300,058	205,105
PRIT Core Fund		86,413,990	87,088,570	81,863,363	72,765,908
Prepaid Expenses		0	875	0	0
Accounts Receivable		101,786	4,134	7,225	7,175
Accounts Payable		(12,921)	(2,265)	(8,242)	(2,247)
Total		<u>\$87,033,411</u>	<u>\$87,718,080</u>	<u>\$82,469,785</u>	<u>\$73,179,358</u>
Fund Balances:					
Annuity Savings Fund		\$27,166,217	\$26,373,850	\$24,958,933	\$23,874,509
Annuity Reserve Fund		8,775,408	8,653,604	8,891,383	9,260,657
Pension Fund		1,379,215	1,550,415	1,334,211	1,360,347
Military Service Fund		14,897	14,882	14,869	17,147
Expense Fund		0	0	0	0
Pension Reserve Fund		<u>49,697,674</u>	<u>51,125,329</u>	<u>47,270,390</u>	<u>38,666,698</u>
Total		<u>\$87,033,411</u>	<u>\$87,718,080</u>	<u>\$82,469,785</u>	<u>\$73,179,358</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$23,244,061	\$8,771,473	\$1,546,270	\$17,130	\$0	\$32,040,436	\$65,619,370
Receipts	2,674,064	272,592	7,105,136	17	675,602	7,879,268	18,606,679
Interfund Transfers	(1,684,723)	1,684,723	1,253,006	0	0	(1,253,006)	0
Disbursements	(358,893)	(1,468,131)	(8,544,065)	0	(675,602)	0	(11,046,691)
Ending Balance (2012)	23,874,509	9,260,657	1,360,347	17,147	0	38,666,698	73,179,358
Receipts	2,568,807	270,824	7,661,932	16	748,922	9,812,905	21,063,406
Interfund Transfers	(955,523)	963,444	1,203,587	(2,295)	0	(1,209,213)	0
Disbursements	(528,861)	(1,603,542)	(8,891,654)	0	(748,922)	0	(11,772,979)
Ending Balance (2013)	24,958,933	8,891,383	1,334,212	14,869	0	47,270,390	82,469,785
Receipts	2,927,408	263,273	7,643,953	14	806,976	5,523,753	17,165,377
Interfund Transfers	(1,094,466)	1,095,562	1,667,719	0	0	(1,668,814)	0
Disbursements	(418,024)	(1,596,613)	(9,095,468)	0	(806,976)	0	(11,917,082)
Ending Balance (2014)	26,373,850	8,653,604	1,550,415	14,882	0	51,125,328	87,718,080
Receipts	2,960,562	258,961	8,058,344	15	793,290	(85,030)	11,986,141
Interfund Transfers	(1,593,795)	1,593,795	1,342,625	0	0	(1,342,625)	0
Disbursements	(574,400)	(1,730,951)	(9,572,168)	0	(793,290)	0	(12,670,810)
Ending Balance (2015)	<u>\$27,166,217</u>	<u>\$8,775,408</u>	<u>\$1,379,215</u>	<u>\$14,897</u>	<u>(\$0)</u>	<u>\$49,697,673</u>	<u>\$87,033,411</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Members Deductions	\$2,695,291	\$2,491,559	\$2,313,875	\$2,208,425
Transfers from Other Systems	127,247	382,002	159,709	409,517
Member Make Up Payments and Re-deposits	5,021	10,049	1,724	9,404
Member Payments from Rollovers	99,725	8,800	48,917	15,453
Investment Income Credited to Member Accounts	<u>33,278</u>	<u>34,999</u>	<u>44,583</u>	<u>31,266</u>
Sub Total	<u>2,960,562</u>	<u>2,927,408</u>	<u>2,568,807</u>	<u>2,674,064</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>258,961</u>	<u>263,273</u>	<u>270,824</u>	<u>272,592</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	145,733	134,417	170,514	83,379
Received from Commonwealth for COLA and Survivor Benefits	175,881	177,587	392,580	222,611
Pension Fund Appropriation	7,736,730	7,331,948	7,098,838	6,793,146
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>8,058,344</u>	<u>7,643,953</u>	<u>7,661,932</u>	<u>7,105,136</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>15</u>	<u>14</u>	<u>16</u>	<u>17</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>793,290</u>	<u>806,976</u>	<u>748,922</u>	<u>675,602</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	12,490	27,895	30,327	42,526
Interest Not Refunded	1,699	6,765	12,379	2,673
Miscellaneous Income	0	7	16	257
Excess Investment Income	<u>(99,219)</u>	<u>5,489,087</u>	<u>9,770,183</u>	<u>7,833,812</u>
Sub Total	<u>(85,030)</u>	<u>5,523,753</u>	<u>9,812,905</u>	<u>7,879,268</u>
Total Receipts, Net	<u>\$11,986,141</u>	<u>\$17,165,377</u>	<u>\$21,063,406</u>	<u>\$18,606,679</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Refunds to Members	\$280,460	\$232,295	\$429,230	\$123,618
Transfers to Other Systems	<u>293,940</u>	<u>185,729</u>	<u>99,631</u>	<u>235,275</u>
Sub Total	<u>574,400</u>	<u>418,024</u>	<u>528,861</u>	<u>358,893</u>
Annuity Reserve Fund:				
Annuities Paid	1,710,752	1,596,613	1,603,542	1,443,944
Option B Refunds	<u>20,200</u>	<u>0</u>	<u>0</u>	<u>24,188</u>
Sub Total	<u>1,730,951</u>	<u>1,596,613</u>	<u>1,603,542</u>	<u>1,468,131</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	6,742,520	6,453,787	6,240,147	5,949,990
Survivorship Payments	635,012	427,549	395,781	414,398
Ordinary Disability Payments	178,639	196,220	211,277	210,870
Accidental Disability Payments	1,331,923	1,352,103	1,356,272	1,347,764
Accidental Death Payments	230,727	225,572	221,334	171,746
Section 101 Benefits	87,714	75,596	83,160	77,462
3 (8) (c) Reimbursements to Other Systems	193,748	180,607	184,765	180,274
State Reimbursable COLA's Paid	<u>171,885</u>	<u>184,034</u>	<u>198,918</u>	<u>191,561</u>
Sub Total	<u>9,572,168</u>	<u>9,095,468</u>	<u>8,891,654</u>	<u>8,544,065</u>
Expense Fund:				
Board Member Stipend	22,500	21,375	22,500	21,250
Salaries	182,643	185,978	176,433	162,909
Legal Expenses	21,008	13,468	18,529	9,722
Medical Expenses	917	426	22	210
Travel Expenses	570	421	1,047	1,211
Administrative Expenses	17,724	15,608	16,948	12,462
Professional Services	4,000	8,600	0	5,000
Actuarial Services	3,000	19,500	4,000	18,500
Accounting Services	24,380	26,489	25,224	20,458
Education and Training	1,229	965	1,360	1,404
Furniture and Equipment	3,032	3,136	3,718	8,741
Management Fees	447,546	449,053	419,942	356,913
Rent Expenses	19,006	18,618	17,710	17,341
Service Contracts	36,679	34,555	33,164	31,236
Fiduciary Insurance	<u>9,057</u>	<u>8,784</u>	<u>8,325</u>	<u>8,244</u>
Sub Total	<u>793,290</u>	<u>806,976</u>	<u>748,922</u>	<u>675,602</u>
Total Disbursements	<u>\$12,670,810</u>	<u>\$11,917,082</u>	<u>\$11,772,979</u>	<u>11,046,691</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Investment Income Received From:				
Equities	0	2,011	1,016	890
Pooled or Mutual Funds	2,281,171	2,387,905	2,195,962	2,136,072
Total Investment Income	<u>2,281,171</u>	<u>2,389,917</u>	<u>2,196,979</u>	<u>2,136,962</u>
Plus:				
Realized Gains	3,177,544	3,787,003	3,529,627	1,731,821
Unrealized Gains	<u>4,556,191</u>	<u>5,469,272</u>	<u>9,091,571</u>	<u>9,046,419</u>
Sub Total	<u>7,733,735</u>	<u>9,256,275</u>	<u>12,621,198</u>	<u>10,778,240</u>
Less:				
Realized Loss	(42,035)	0	0	0
Unrealized Loss	<u>(8,986,546)</u>	<u>(5,051,843)</u>	<u>(3,983,649)</u>	<u>(4,101,914)</u>
Sub Total	<u>(9,028,581)</u>	<u>(5,051,843)</u>	<u>(3,983,649)</u>	<u>(4,101,914)</u>
Net Investment Income	<u>986,324</u>	<u>6,594,348</u>	<u>10,834,527</u>	<u>8,813,288</u>
Income Required:				
Annuity Savings Fund	33,278	34,999	44,583	31,266
Annuity Reserve Fund	258,961	263,273	270,824	272,592
Military Service Fund	15	14	16	17
Expense Fund	<u>793,290</u>	<u>806,976</u>	<u>748,922</u>	<u>675,602</u>
Total Income Required	<u>1,085,543</u>	<u>1,105,261</u>	<u>1,064,345</u>	<u>979,477</u>
Net Investment Income	<u>986,324</u>	<u>6,594,348</u>	<u>10,834,527</u>	<u>8,813,288</u>
Less: Total Income Required	<u>1,085,543</u>	<u>1,105,261</u>	<u>1,064,345</u>	<u>979,477</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$99,219)</u>	<u>\$5,489,087</u>	<u>\$9,770,183</u>	<u>\$7,833,812</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2015		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$280,387	0.3%
PRIT Cash Fund	250,169	0.3%
PRIT Core Fund	<u>86,413,990</u>	<u>99.4%</u>
Grand Total	<u>\$86,944,546</u>	<u>100.0%</u>

For the year ending December 31, 2015, the rate of return for the investments of the Gloucester Retirement System was 1.19%. For the five-year period ending December 31, 2015, the rate of return for the investments of the Gloucester Retirement System averaged 7.57%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Gloucester Retirement System was 8.79%.

The composite rate of return for all retirement systems for the year ending December 31, 2015 was 0.91%. For the five-year period ending December 31, 2015, the composite rate of return for the investments of all retirement systems averaged 7.49%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.14%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Gloucester Retirement System voted on January 22, 2008 to invest all of the system's assets, with the PRIT fund as of February 1, 2008. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Gloucester Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$846.12 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$846.12 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Gloucester Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:

September 9, 2015

Employees, elected, and appointed officials earning less than \$5,000 per year are ineligible for initial membership.

April 6, 2015

A regular employee of the City of Gloucester or the Gloucester Housing Authority, who works a minimum of 20 hours per week for 180 school days for the school employee for the school year or 52 weeks per calendar year for City or GHA employees in a calendar year shall be enrolled in the Gloucester Retirement System, except contract employees, consultants, per diem employees, fee for service employees, on-call employees, and those employees hired/ or classified as temporary, substitute, provisional, intermittent, seasonal, or seasonal emergency are not eligible for membership.

Upon becoming a member of the Gloucester Retirement System, any member may purchase any past service rendered as a part-time, provisional, temporary, substitute, seasonal, or intermittent employee, provided that the member remits to the Gloucester Retirement Board the amount of contributions that would have been withheld from payment for such service, together with statutory interest, had he or she been a member of the System at the time the service was rendered.

Creditable Service:

April 6, 2015

A member employed on a full time basis who becomes part-time shall receive credit for his part-time service based on the full time equivalency of that position.

Full time employees to receive 1 year of creditable service for each year employed. Part time employees whose position has always been part time are granted full creditable service provided that the hours never fluctuated and the employee stayed at a minimum of 20 hours per week in a calendar year if a City or Gloucester Housing Employee or 20 hours per week in a school year if a school employee.

Any request by a member to purchase past service will have the rules stated above applied to their past service to determine creditable service.

A member employed on a full time basis who becomes part-time shall receive credit for his part-time service based on the full time equivalency of that position.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Buyback:

Any member who received remuneration or payment in the form of cash for services rendered will not be considered an employee and will be precluded from purchasing any such past service rendered. The Board does not permit the purchase of past service of any other position which is paid via Form 1099 rather than a W-2.

It shall be the sole responsibility of the member to obtain, and provide to the Board, verification of this past service rendered, including but not limited to payroll records indicating the amount of compensation received and the amount of hours worked. In the event that any or all of such original documentation is unavailable, the Board may exercise its discretion pursuant to G.L. c 32 § 20(5)(c) (1), on a case by case basis, to accept alternative documentation to verify said service.

1. Lump sum payment.
2. Two equal payments distributed over two (2) consecutive months.

Creditable Service buyback payments must commence within 30 days of the date of acceptance by the board.

Miscellaneous:

September 9, 2015

Each member of or retired from Gloucester Retirement has the right to vote.

April 6, 2015

Forms:

Affidavit of Marital Status Upon Retirement or Refund of Accumulated Deductions.

Public Records:

The Annuity Portion of a Retirement Allowance and Medical Records are not public records.

Military Buyback:

Members seeking to purchase military service under G.L. c. 32 § 4(1)(h) shall have 180 days from the time the member is first notified of his/her potential right to purchase such service. Once notified of such potential right, a member's subsequent change of employment or re-entry into the Retirement System shall not provide the member with additional rights under said statute.

Liability:

The Gloucester Retirement Board will not accept any liability pursuant to G.L. c. 32 § 3(8)(c) for employment service to the City of Gloucester or the Gloucester Housing Authority, which did not qualify the employee for membership in the Gloucester Retirement System unless the employee subsequently became a member of the Gloucester Retirement System and purchased said service while employed by the City of Gloucester or the Gloucester Housing Authority.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Redeposits of refunds taken from other retirement systems are excluded from this regulation.

Elections:

The Gloucester Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no election shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each active member of or retired from the Gloucester Retirement Board shall be allowed to vote for not more than two candidates. Upon tabulation of the ballots, the two candidates who received the most votes shall be declared the elected members of the Board. Elections will be done by mail. Only retirees and active members may vote. No campaign literature on behalf of any candidate will be delivered to voting members by the Retirement Board or staff.

Applicability:

If at any time all or any portion of these supplemental regulations, or the application thereof, are determined to be in violation of Massachusetts General Laws Chapter 32, or of the rules and regulations promulgated by the Public Employee Retirement Administration Commission, then such Supplemental Regulation, or application thereof, shall be deemed null and void.

Travel Regulations:

October 24, 2002

The Gloucester Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Gloucester>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Kenny Costa

Appointed Member: Jim Destino **Term Expires:** Indefinite

Elected Member: Douglas A. Mac Arthur, Term Expires: 7/31/17
Chairman

Elected Member: Kathlleen Auld Term Expires: 7/31/17

Appointed Member: Melissa Hobbs **Term Expires:** 1/5/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Segal Consulting as of January 1, 2016.

The actuarial liability for active members was	\$87,535,735
The actuarial liability for inactive members was	3,296,604
The actuarial liability for retired members was	<u>108,310,362</u>
The total actuarial liability was	\$199,142,701
System assets as of that date were (actuarial value)	<u>90,264,398</u>
The unfunded actuarial liability was	<u>\$108,878,303</u>
 The ratio of system's assets to total actuarial liability was	 45.3%
As of that date the total covered employee payroll was	\$29,012,371

The normal cost for employees on that date was 9.7% of payroll

The normal cost for the employer was 7.1% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.50% per annum
 Rate of Salary Increase: 4.00% for 2016 and 4.50% per year thereafter

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2016	\$90,264,398	\$199,142,701	\$108,878,303	45.3%	\$29,012,371	375.3%
1/1/2014	\$78,582,536	\$176,129,856	\$97,547,320	44.6%	\$26,629,102	366.3%
1/1/2012	\$67,318,567	\$152,051,654	\$84,733,087	44.3%	\$23,142,683	366.1%
1/1/2010	\$65,139,502	\$138,859,148	\$73,719,646	46.9%	\$23,227,715	317.4%
1/1/2008	\$71,938,829	\$128,811,115	\$56,872,286	55.8%	\$22,787,184	249.6%
1/1/2006	\$58,165,000	\$117,403,000	\$59,238,000	49.5%	\$20,903,000	283.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Retirement in Past Years										
Superannuation	10	17	17	35	11	16	22	14	15	17
Ordinary Disability	1	0	0	0	0	0	0	0	0	0
Accidental Disability	3	2	2	0	0	2	0	0	0	3
Total Retirements	14	19	19	35	11	18	22	14	15	20
 Total Retirees, Beneficiaries and Survivors	407	405	413	433	427	429	443	450	455	459
 Total Active Members	544	558	542	522	521	506	505	519	506	535
Pension Payments										
Superannuation	\$4,173,895	\$4,213,770	\$4,367,025	\$4,815,030	\$5,141,077	\$5,541,022	\$5,949,990	\$6,240,147	\$6,453,787	\$6,742,520
Survivor/Beneficiary Payments	299,621	348,927	380,544	396,382	372,834	351,007	414,398	395,781	427,549	635,012
Ordinary Disability	223,425	221,449	216,671	206,044	211,106	205,939	210,870	211,277	196,220	178,639
Accidental Disability	1,382,273	1,258,206	1,326,876	1,373,151	1,356,542	1,305,682	1,347,764	1,356,272	1,352,103	1,331,923
Other	<u>465,462</u>	<u>477,722</u>	<u>456,812</u>	<u>628,983</u>	<u>593,630</u>	<u>596,601</u>	<u>621,043</u>	<u>688,177</u>	<u>665,809</u>	<u>684,074</u>
Total Payments for Year	<u>\$6,544,676</u>	<u>\$6,520,074</u>	<u>\$6,747,928</u>	<u>\$7,419,590</u>	<u>\$7,675,189</u>	<u>\$8,000,251</u>	<u>\$8,544,065</u>	<u>\$8,891,654</u>	<u>\$9,095,468</u>	<u>\$9,572,168</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Gloucester Retirement Board leases approximately 1,380 square feet of space for its offices located at 127 Eastern Avenue, Gloucester, MA 01931. They signed an initial 5-year lease term which expired December 31, 2014. The current lease expires December 31, 2019. The landlord is 127 Eastern Avenue Realty Trust.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2015:

<u>For the year ending:</u>	<u>Annual Rent</u>
2016	\$ 17,319
2017	17,526
2018	17,733
2019	<u>17,940</u>
Total future minimum lease payments required:	<u>\$ 70,518</u>

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